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S. H. KRESS & COMPANY

Kress Store
Sacramento, Calif.

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Annual Report - 1947

THE KRESS STORE IN SACRAMENTO, the capital city of California, was opened for business February 5, 1932. Despite the fact that this store was opened at a time when the country was in the grip of a serious depression its acceptance by the shopping public of Sacramento was immediate.

At the time the Sacramento store was opened in 1932, Kress had been established in California for many years, the Company having opened its first store in San Diego in 1918. At the end of 1947 there were 41 Kress stores in operation in California.

To keep abreast of the growth of the State of California, one new store was opened during the latter part of 1947, and construction was started on two other stores which will be opened in 1948. The Company's expansion program also includes plans for the construction of five additional stores and for the enlargement or rehabilitation of other stores in California.

S. H. KRESS & COMPANY

Buying-Executive Offices
114 FIFTH AVENUE, NEW YORK 11, N. Y.

OFFICERS

S. H. KRESS	*Chairman of the Board*
R. H. KRESS	*Vice-Chairman of the Board*
W. L. BAKER	*President*
O. N. BIRKLAND	*Vice-President*
H. S. DAVIS	*Vice-President*
W. H. LOLLAR	*Vice-President*
E. F. SIBBERT	*Vice-President*
C. G. TRAMMELL	*Vice-President*
C. H. OWEN	*Secretary and General Counsel*
C. M. FUNK	*Treasurer*
A. J. OEHLER	*Controller*
W. M. WEAVER	*Assistant Treasurer*
W. F. DEMPSEY	*Assistant Secretary*
J. S. SMITH	*Assistant Secretary*
A. F. GUERBER	*Assistant Secretary*

DIRECTORS

S. H. KRESS	H. S. BOWERS	H. S. DAVIS
R. H. KRESS	J. M. HANCOCK	W. H. LOLLAR
W. L. BAKER	O. N. BIRKLAND	O. V. W. HAWKINS

Transfer Agent: LAWYERS TRUST COMPANY, NEW YORK, N. Y.
Registrar: CHEMICAL BANK & TRUST COMPANY, NEW YORK, N. Y.

S. H. KRESS & COMPANY

January 30, 1948

To the Stockholders of S. H. Kress & Company:

THE FINANCIAL STATEMENTS of our Company for the year ending December 31, 1947, certified by Price, Waterhouse & Co., independent public accountants engaged by the Board of Directors, are submitted herewith.

In addition to the customary financial statements there is included in this report a simplified statement of our operations for 1947, in which is shown how much the Company received from sales and other sources during the year and what became of the amount received. This statement also shows how much of each dollar of income was paid (1) to our employes for wages, salaries, and other benefits; (2) to Federal, state, and local governments for direct taxes; (3) to our stockholders in the form of dividends, and (4) how much was retained in the business for future needs.

SALES

Total sales for 1947 amounted to $155,359,900, an increase of 2.9% as compared with 1946. During the greater part of 1947 there were only 240 stores in operation as compared with 242 stores in 1946.

For the information of our stockholders we are including in this report a chart illustrating the growth of the Company and showing the Company's annual sales from 1928 to 1947, inclusive. In the 20-year period covered by this chart, sales increased from $65,054,637 in 1928 to $155,359,900 in 1947, an increase of 138.8%.

EARNINGS AND DIVIDENDS

After providing for Federal and state taxes on income, net earnings for the year were $12,672,077 or $5.39 on each share of common stock outstanding as compared with $12,785,531 or $5.44 per share in 1946. Operating expenses have increased substantially, occasioned by higher wages and other costs.

During the year the Company paid to its stockholders dividends totaling $3.50 per share of common stock. These dividends included two extra dividends aggregating $1.50 per share.

WAGES AND SALARIES

The Company paid to its employes in wages and salaries during the year the sum of $26,365,240, an increase of 6.9% over 1946. In accordance with the established practice of our Company, special payments totaling $439,812 were made to employes, other than managers and executives, in recognition of length of service and special accomplishments by outstanding employes, and as the customary Christmas bonus.

During the year the Company contributed $62,496 in the payment of premiums on policies of life insurance on the lives of its employes, in accordance with the Company's Group Life Insurance Plan.

The Company also contributed $561,069 for the maintenance of the Company's Employes' Retirement Pension Plans, which sum included non-recurring payments of $139,849 required for the funding of past service benefits.

The contributions made by the Company for Unemployment Insurance and Federal Old Age Benefits amounted to $628,028 in 1947, which was an increase of 6.8% over the $588,252 contributed by the Company in 1946.

Wages, salaries and the cost of employe benefits paid by the Company in 1947 were equivalent to 17.8¢ per dollar of sales. This compares with 17¢ per dollar of sales in 1946.

TAXES

Direct taxes, other than for Unemployment Insurance and Federal Old Age Benefits, paid to Federal, state, and municipal governments, included in operating expenses, amounted to $10,360,405, an increase of 2.1% compared with 1946.

In addition to the direct taxes paid by our Company, excise and sales taxes amounting to $4,526,240 were collected from customers and remitted to the proper taxing authorities as required by law. The increase of $237,447 or 5.5% in excise and sales taxes collected in 1947 was due principally to the increasing number of states and municipalities resorting to the use of sales taxes.

STOCK OWNERSHIP

At the end of the year the common stock of our Company was owned by 8,611 shareholders as compared with 7,800 shareholders at the end

of 1946. The number of employes who are shareholders of the Company increased to 1,146 at the end of 1947 compared with 1,047 at the end of the previous year.

INVENTORY

On December 31, 1947 inventories of merchandise on hand and in transit amounted to $21,690,382, compared with $24,294,803 at the end of 1946. Due to the continuing improvement in merchandise deliveries, open orders were considerably less than at the end of the previous year.

We are confident that through our policy of stressing rapid turnover of merchandise and the emphasis placed on the sale of merchandise in the lower-price brackets, the possibility of inventory losses in a period of declining prices will be minimized.

STORES IN OPERATION—FUTURE EXPANSION

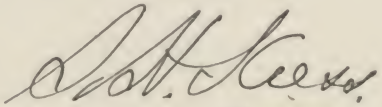
At the end of 1947, 243 stores were in operation in 29 states and the Territory of Hawaii, as compared with 242 stores at the end of 1946. Our store at Greenville, South Carolina, was destroyed by fire in March 1947. New stores were opened at El Centro, California, and West Jefferson Avenue, Dallas, Texas, during the last two months of the year. Stores at Johnson City, Tennessee, and Richmond, California, were enlarged and remodeled during the year.

Seven new stores are under construction at the present time and are scheduled to open in 1948. Our program for future expansion also includes 14 new stores to be constructed on locations acquired in recent years, and 5 new buildings to be constructed to replace existing stores. Also, many of our existing stores are scheduled to be enlarged and modernized as soon as this work can be undertaken.

PERSONNEL

Considerable progress has been made since the end of the war in the strengthening of our organization. Our Company is continuing its progressive personnel program by selecting qualified men and women and training them in our business in accordance with our established principles.

By order of the Board of Directors,



Chairman

1947 Operations at a Glance

		Amount	*Cents Per Dollar*
WE RECEIVED:			
From sales to customers		$155,359,900	99.6
From others for rental of property, interest and gain from sale of assets		575,111	.4
Total amount received		$155,935,011	100.
WE PAID OUT:			
For merchandise, rent and operating expenses other than taxes, wages and salaries and employe benefits		$105,285,696	67.5
Taxes paid to Federal, state, county, and municipal governments (not including taxes paid by the Company for Unemployment Insurance and Federal Old Age Benefits)		10,360,405	6.7
Wages and salaries and other employe benefits paid to:			
All employes other than officers	$25,780,753		16.5
Officers	584,487		.4
Retirement pension and group life insurance contributions	623,565		.4
Unemployment Insurance and Federal Old Age Benefits	628,028		.4
Total		27,616,833	17.7
Dividends paid to 8,611 stockholders		8,230,859	5.3
Total paid out		$151,493,793	97.2
BALANCE RETAINED in the business for future needs (principally for modernization of existing stores and construction of new stores)		4,441,218	2.8
Total paid out and retained in the business		$155,935,011	100.

S. H. KRESS & COMPANY

Statement of Earnings

	Year ending December 31, 1947	1946
GROSS SALES	$155,359,900	$150,926,508
Deduct:		
Cost of merchandise sold and operating expenses	$132,823,906	$128,432,980
Provision for depreciation and amortization	1,977,959	1,969,745
Provision for employes' retirement pension plans	421,220	330,788
Provision for past service benefits under supplemental pension plan	139,849	34,552
	$135,362,934	$130,768,065
	$ 19,996,966	$ 20,158,443
Add:		
Rentals received from tenants	$ 380,151	$ 369,338
Gain on sales of securities and other assets	47,656	100,877
Interest received (net)	147,304	156,873
	$ 575,111	$ 627,088
	$ 20,572,077	$ 20,785,531
Deduct:		
Provision for Federal income taxes	$ 7,900,000	$ 8,000,000
NET EARNINGS FOR THE YEAR	$ 12,672,077	$ 12,785,531
ACCUMULATED EARNINGS AT BEGINNING OF YEAR	$ 24,474,458	$ 21,565,958
	$ 37,146,535	$ 34,351,489
Dividends paid on common stock	$ 8,230,859	$ 9,877,031
ACCUMULATED EARNINGS RETAINED FOR USE IN THE BUSINESS	$ 28,915,676	$ 24,474,458

S. H. KRESS & COMPANY

ASSETS

	December 31, 1947	1946
CURRENT ASSETS:		
Cash	$ 14,867,428	$ 9,121,003
U. S. Government securities, at amortized cost (market value at December 31, 1947—$8,900,000)	8,889,533	5,361,806
Sundry debtors	41,522	50,370
Inventories of merchandise, including merchandise in transit, at cost or market, whichever is lower	21,690,382	24,294,803
Total current assets	$ 45,488,865	$ 38,827,982
OTHER ASSETS:		
Loans and advances to landlords and miscellaneous notes receivable	$ 319,557	$ 537,440
Prepaid insurance premiums, rents, etc	795,063	1,170,168
Total other assets	$ 1,114,620	$ 1,707,608
CAPITAL ASSETS:		
Fixtures and equipment, at cost	$ 16,131,612	$ 15,313,317
Less—Reserve for depreciation	12,393,466	11,866,410
	$ 3,738,146	$ 3,446,907
Leasehold improvements, at cost	$ 16,858,746	$ 16,379,140
Less—Reserve for amortization	9,081,983	8,610,941
	$ 7,776,763	$ 7,768,199
Land and buildings owned in fee, at cost in cash and capital stock	$ 41,443,954	$ 39,596,767
Less—Reserve for depreciation	10,606,915	9,899,412
	$ 30,837,039	$ 29,697,355
Goodwill, leaseholds, etc	$ 1	$ 1
Total capital assets	$ 42,351,949	$ 40,912,462
	$ 88,955,434	$ 81,448,052

Statement of Financial Condition

LIABILITIES

	December 31,	
CURRENT LIABILITIES:	*1947*	*1946*
Accounts payable—trade creditors	$ 1,146,564	$ 1,028,143
Accounts payable—merchandise in transit	997,247	1,280,141
Accrued salaries, expenses, taxes, etc., including taxes withheld	5,059,350	5,199,373
Provision for Federal taxes on income (*less* U. S. Treasury tax notes; 1947, $4,500,000; 1946, $7,872,000)	4,443,861	1,073,201
Total current liabilities	$ 11,647,022	$ 8,580,858
CAPITAL:		
Capital stock:		
Special preferred stock—6% cumulative— Authorized—1,000,000 shares of $10 each Outstanding—None		
Common stock without par value— Authorized—2,678,787 shares Issued—2,357,574 shares	$ 48,511,253	$ 48,511,253
(Common stock reserved for sale to employes—68,434 shares)		
Accumulated earnings retained for use in the business	$ 28,915,676	$ 24,474,458
Less—Cost of 5,900 shares of common stock reacquired	118,517	118,517
	$ 28,797,159	$ 24,355,941
Total capital stock and accumulated earnings	$ 77,308,412	$ 72,867,194
	$ 88,955,434	$ 81,448,052

AUDITORS' REPORT

PRICE, WATERHOUSE & CO.

56 PINE STREET
NEW YORK 5

January 30, 1948.

To the Stockholders of S. H. Kress & Company:

We have made an examination of the balance sheet of S. H. Kress & Company as of December 31, 1947 and of the related statement of earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary in the circumstances.

During 1947 the Company discontinued its practice of including in its financial statements a charge for rental of owned properties, with an offsetting credit to other income, which change we approve. In other respects the principles of accounting were applied on a basis consistent with that of the preceding year. The statement of earnings for the preceding year, included in the attached financial statements for purposes of comparison, has been revised to reflect this change.

In our opinion, the accompanying balance sheet and related statement of earnings present fairly the position of S. H. Kress & Company at December 31, 1947 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Price, Waterhouse & Co.

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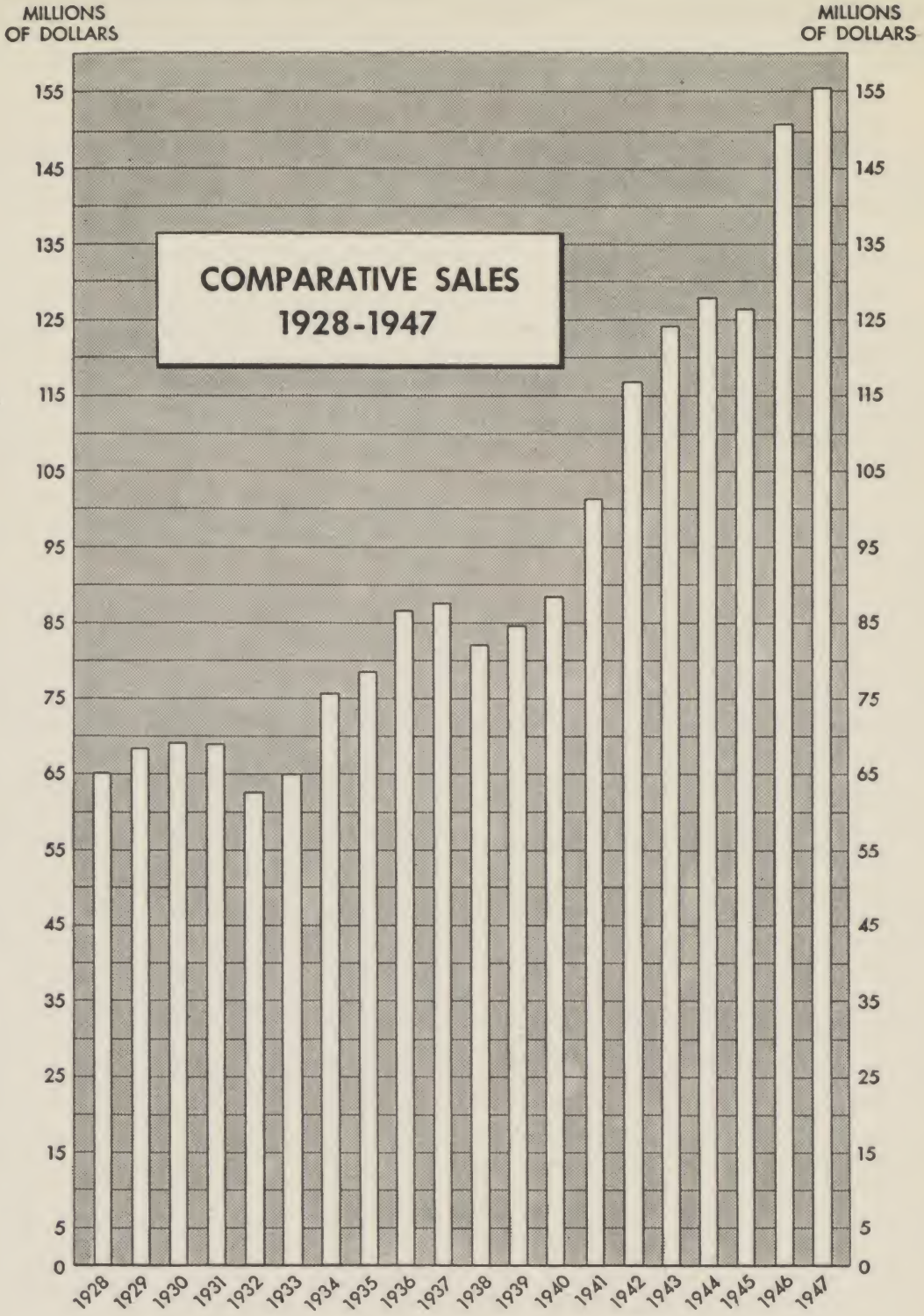
MILLIONS OF DOLLARS
MILLIONS OF DOLLARS
COMPARATIVE SALES
1928-1947
155
145
135
125
115
105
95
85
75
65
55
45
35
25
15
5
0
1928
1929
1930
1931
1932
1933
1934
1935
1936
1937
1938
1939
1940
1941
1942
1943
1944
1945
1946
1947